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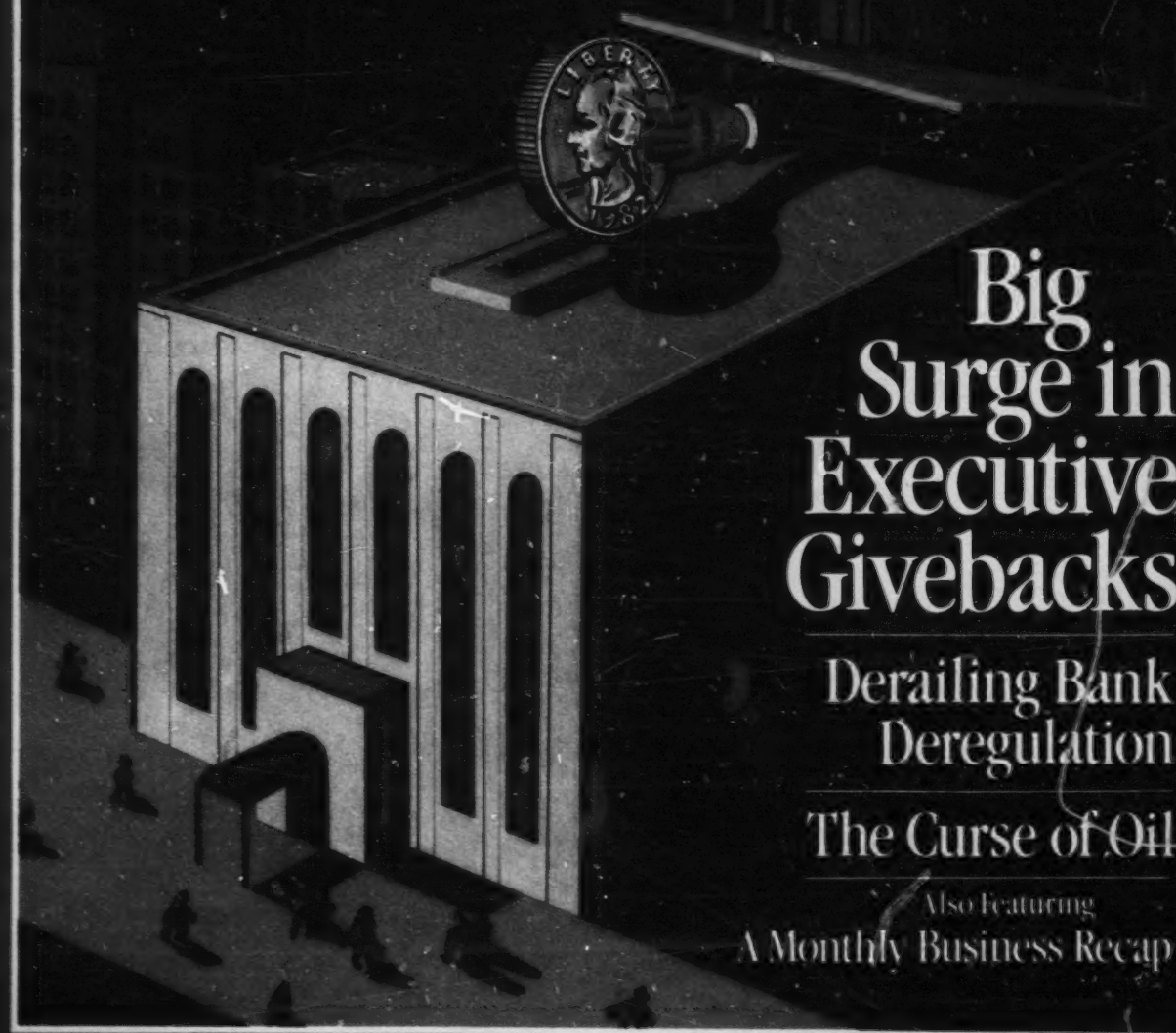
Recovery: Ready to Go?

DUN'S BUSINESS MONTH



Big Surge in Executive Givebacks

Derailing Bank Deregulation

The Curse of Oil

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A Monthly Business Recap

DUN'S BUSINESS MONTH

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below-market interest rates. Some experts say seller financing might add up to $70 billion or more this year.

Among the many risks in these transactions for the seller, obviously the most serious is that the buyer will default on the loan. Such defaults have been growing at an alarming rate, realtors say, leaving the seller with no recourse except to foreclose on the property—a time-consuming and often financially draining prospect.

Now, though, several of the big mortgage insurance companies have come to the sellers' rescue with insurance that offers the same kind of protection that traditional lenders enjoy. The policies cover a certain percentage of the unpaid principal and interest, as well as most costs associated with foreclosure. Among the companies offering the insurance are Mortgage Guaranty Insurance Corp. (MGIC), American Mortgage Insurance, Verex Assurance and United Guaranty.

The insurance can be bought only through traditional sources—banks, savings and loan associations and mortgage bankers—which must also originate and service the loan; that is,

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

Investment	(5/28/82) Recent Price	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$14.40/share	$ 9,717	$ 8,937
per cent change		−2.8%	−10.6%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$88.31	$ 9,965	$ 9,612
ACCUMULATED INCOME		$ 110	$ 1,065
TOTAL		$10,075	$10,677
per cent change		+0.7%	+6.8%
Money Market Fund	13.02%	$10,110	$11,413
per cent change		+1.1%	+14.1%
Gold (Krugerrands)	$338/oz.	$ 9,363	$ 6,659
per cent change		−6.4%	−33.4%
Existing House	$69,300	$69,100	$63,500
per cent change		+0.3%	+9.1%
New House	$86,400	$ 95,700	$88,900
per cent change		−9.7%	−2.8%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Deak-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

Traditional procedures

evaluate the buyer's credit worthiness, prepare all loan documents, collect monthly payments and manage late payments and foreclosures. This in itself is a tremendous plus for sellers, who otherwise have to do all the work themselves.

Equally important, going through traditional lenders makes seller-financed loans salable in the secondary market for the first time, an attractive option for a seller who needs quick cash. In fact, the Federal National Mortgage Association, the largest purchaser of home mortgages, has a new program that outlines its criteria for seller-financed loans. "This is an excellent program for sellers," says Ted L. Sanborn, vice president of Crocker Mortgage Co. "Now they can loan a buyer money and feel comfortable knowing that there is an established institution behind them that does this routinely."

To illustrate how the insurance works, assume that a seller gets $85,000 for his house and takes back a fifteen-year, $75,000 first mortgage at 14% interest. Under the MGIC Homeseller plan, whose 25% coverage is typical, the premium would be 0.5% of the mortgage amount for the first year, or $375, which is usually paid by the buyer at the closing of the sale, and 0.25%, or $187.50, each subsequent year, paid by the buyer in $15.63 monthly installments.

The lender's origination and service fees, which are negotiated among the buyer, seller and lender, are running about 0.5%, according to MGIC. Although the buyer typically carries both the premium and servicing fees, the seller may in effect be paying for them, since the sale price may be lowered to reflect these costs.

Then assume that the buyer defaults after twelve payments, and the claim is settled eleven months later. The seller's total insurance claim—for the balance of the principal, 330 days' interest, attorney's fees, preservation of the property and real-estate taxes and insurance premiums he had to advance—is $86,661.

In most cases, MGIC pays the seller 25% of the claim, or $21,665.25. The seller regains title to the house and can try to resell it to recoup the remaining 75% of the unpaid loan balance. However, MGIC has the option of paying off the total claim and taking title itself. The policy works similarly for a second mortgage, but with a higher premium of 0.75% throughout.

It is also possible to insure an existing loan, MGIC reports, but the loan must go through the complete origination process, and the premium and servicing fees would come out of the seller's pocket.

Since the insurance was introduced nationally just several months ago, it is too early to tell how popular it will be. MGIC and other insurers, however, report enthusiastic response from lenders and real-estate brokers, who view it as a much needed selling tool in today's market. —M.S.L.